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SUBJECT: LIBERIA: FORESTRY / TIMBER SECTOR UPDATE

REF: 2006 MONROVIA 1333

1. (SBU) SUMMARY: The Liberian Forestry Development Authority (FDA) has missed key deadlines in the chain of deliverables necessary for the resumption of commercial logging in Liberia. Much of the legal framework for the forestry sector is in place and the FDA has made substantial strides toward putting the FDA back in order financially and technically over the past year. But the FDA has failed to implement critical steps necessary to restart the logging industry in line with the government's target to advertise and award timber sale contracts by October 2007. As a result, the first timber contracts may not be issued before January and very few are likely to be issued at all before the end of Liberia's fiscal year next June 30. The chain of custody contract that is the foundation for monitoring the legality of the new system (and is partially funded by the United States) is stalled and the FDA has done little to address sensible civil society concerns on significant issues including illegal chain sawing, land tenure and community forestry. Meanwhile, the GOL is set to expand Liberia's network of protected parks and is increasingly embracing the idea - at least in theory - of carbon markets as a conservation measure and a potential revenue source for the country. END SUMMARY.

BACKGROUND ON LIBERIA'S TIMBER INDUSTRY

2. (U) The Liberian commercial timber industry has been both a major economic engine of growth and a key source of corruption and mismanagement. At the height of forestry production prior to the 1990-2003 war, export of timber products contributed nearly 25% of national foreign exchange and the sector employed more than 8,000 seasonal workers. During the war (but before United Nations sanctions in 2003), armed militias controlled many concession areas and timber exporters amassed over US\$64 million in tax arrears on more than US\$100 million in exports per annum between 1997 and 2003. The GOL handed out 26 million acres of forestry concessions for only 10 million acres of actual forest. A concession review committee established in 2005 determined that not one of 70 contracts reviewed could demonstrate legal compliance.

3. (U) The lifting of UN sanctions in 2006 has made the resumption of commercial logging a key priority of the GOL. The industry could potentially provide up to US\$20-25 million in annual government revenue and 10,000 jobs with 2.5 million hectares under contract. The Liberian Forest Initiative (LFI), a collaboration between the United States, World Bank, European Commission, non-governmental organizations and the GOL, began in 2004 to address the reform

requirements of UN Security Council sanctions on timber, specifically working to improve timber revenue management transparency and accountability and sustainable forest management programs based on commercial conservation and community forestry.

COMMERCIAL FORESTRY - FDA SUCCEEDS ON INITIAL REFORMS...

14. (U) Since passage of the National Forestry Reform Law in October 2006 (reftel) the Forestry Development Authority (FDA) has made substantial strides toward putting its operations back in order financially and technically in an effort to prepare for the re-start of forest management. The FDA completed a difficult staff downsizing exercise to reduce the number of employees on the payroll from 519 to 295 at a cost of almost US\$640,000 (of which the United States contributed US\$200,000). The Governance and Economic Management Assistance Program (GEMAP) and LFI are assisting the FDA to finalize standard internal operating procedures. In addition, U.S.-funded GEMAP and LFI advisors have worked with the FDA financial, procurement and human resources departments to establish internal controls and procedures for all financial transactions, including but not limited to cleaning up the payroll, petty cash, procurement, disbursement, payables and billing transactions. The FDA installed a computerized accounting system linked to the chain of custody to ensure accurate tax payments. In May 2007, for the first time in years, the team began publishing financial statements each month.

15. (U) With assistance from the LFI, the FDA also drafted a legal framework of ten core regulations, a Code of Harvesting Practices, a protected area network proposal and a draft of the National Forest Management Strategy - all submitted to the FDA Board of Directors in June 2007 for approval. The ten regulations need only to be signed into full force and effect and they will form the foundation for the legal re-start of commercial logging. The National Forest Management Strategy must be vetted through regional and national workshops and is the last document that must move forward before logging can start.

... BUT STUMBLES IN IMPLEMENTATION

16. (SBU) Despite these notable early achievements in establishing the legal and operational framework for forestry, the FDA has stumbled in implementation of several critical steps necessary for the resumption of commercial logging. First, the FDA Board must sign off on the ten core regulations, which it has failed to do since June despite FDA management approval. Secondly, the FDA must complete vetting and approval of the National Forest Management Strategy, field evaluation of the likely impact on forest resources and affected communities, and the pre-qualification of commercial logging companies. Only then can the FDA establish the prospectus describing commercial logging areas that will be up for bidding, advertise for tender, and award the first commercial contracts through a competitive bidding process. The FDA suggested earlier this year that these steps would be complete by the end of the rainy season in October 2007, but as of September, they are still stuck on step one, and time-consuming field evaluation didn't begin until July.

17. (SBU) Besides slippage in the timeline for the resumption of commercial logging, the FDA has failed to address a handful of critical issues that have the potential to undermine the sector. Illegal chain saw processing ("pit-sawing") continues unabated and the FDA has not yet agreed on an appropriate policy to ban or regulate the practice. The Liberian Environmental Protection Agency (EPA) laws require all companies engaged in extractive industries, including logging companies, to carry out rigorous Environment Impact Analyses (EIA) and forest management planning, but a lack of appropriate capacity within companies and the EPA will slow the resumption of logging. The FDA has not responded to civil society concerns that commercial logging should not resume until land tenure issues are resolved - a process that is likely to take several years - and that the FDA is providing inadequate focus on value-added industries. Because of the FDA's prior track record, civil society organizations are understandably uneasy over a return to business as

usual if contracts are tendered too quickly, without a vetted Forest Management Strategy, or with inadequate attention to community forestry issues (see paragraphs 9-10).

18. (SBU) All of these issues reinforce the importance of having a solid chain of custody mechanism in place, and the most alarming obstacle facing the FDA at present is the danger that contract negotiations with Socit Gnrale de Surveillance (SGS), a Swiss export-import monitoring firm, might soon collapse. The chain of custody is the foundation for monitoring the legality and fee payments of all logs from future commercial contracts. The USG is providing US\$1.64 million start-up support to make sure that the chain of custody system will ensure traceability of log movement, guarantee that illegal logs do not enter the system and make certain that the GOL collects appropriate fees for logs cut and exported. SGS won the provisional bid award in June 2007 to manage the chain of custody system. The Inter-Ministerial Concession Committee established the negotiation team comprising the FDA, United States Government, Ministry of Finance (MOF), Ministry of Justice, Ministry of Planning and Economic Affairs and the Ministry of State. A negotiated position has been established for technical implementation but the FDA and the MOF are at odds over the cost of the contract. The FDA has put a premium on the integrity and comprehensiveness of the technical aspects leading to an estimated cost by SGS of approximately 12% of total sector revenue. But the MOF is unwilling to pay more than 4% of sector revenue, without providing any technical or financial foundation for the figure. If SGS abandons the negotiations, the delays could cripple plans to commence timber exports in the coming dry season. [Note: Forests are inaccessible for commercial logging in the May-October rainy season. End note.]

COMMUNITY FORESTRY

19. (U) The Working Group on Community Forestry, with representatives from the FDA, civil society organizations, international environmental NGOs and donor institutions, is coordinating efforts to draft a comprehensive Community Forestry Law (CFL). This law will define how communities can participate in sustainable forest management in order to obtain economic benefits from forestry. Donor support from the World Bank and the United States will ensure funding to analyze existing laws and best practices in community forestry both in Liberia and in other countries as well as holding consultations with forest dependent communities to better inform the development of the law. The USDA Forest Service will provide assistance in a technical review of the draft law. Chapter 10 of the 2006 Forestry Reform Law called for a community forestry law to be completed by October 23, 2007, but a final draft is unlikely before 2008.

110. (U) USAID is presently soliciting proposals for a land rights and community forestry program in Liberia. This program will target Nimba and Sinoe Counties, where other USAID programs are supporting improved natural resource management and development activities. In addition to developing pilot community forestry activities to test best-practices in the Liberian context, this program also will support efforts to better clarify land and property rights for community ownership and control of land and natural resources.

CONSERVATION

111. (U) Efforts continue to create new parks within the country's protected area network. A protected area workshop was held in Ganta (Nimba County) during the first week of August 2007 with representatives from the Liberian government, international conservation organizations, the private sector and donor institutions. The objective was to help the FDA establish its methodology for the selection of new protected areas in Liberia. The workshop also nominated three new protected park areas: Lake Piso, Gola Forest and Wonegizi Forest. The FDA hosted another meeting in Ganta in August to discuss the establishment of trans-boundary parks between Liberia and Guinea, Sierra Leone and Cote d'Ivoire.

CARBON MARKETS - TARGET OF OPPORTUNITY?

¶12. (U) Given the large percentage of forested area in Liberia, many international conservation organizations have proposed carbon sequestration programs as potential revenue sources for Liberia. These emerging schemes could provide financial returns for incremental reductions in deforestation levels as well as reforestation activities. However, given that carbon markets are relatively new and somewhat volatile, efforts to promote them in Liberia require extensive pre-feasibility studies and testing on a limited basis before any recommendations for widespread implementation.

LAND TENURE AND PROPERTY RIGHTS REFORM REMAIN ELUSIVE

¶13. (U) Like many countries in Africa, Liberia has both statutory and customary land tenure regimes. The statutory system was fundamental to the development of rubber, timber and mineral concessions, while customary institutions and usufruct rights provided smallholders with access and security to land. However, unchecked land appropriation and land speculation have led to uncertainty and conflict. Many communities lost large areas of customary lands, and land tenure issues are affecting the development of forestry, mining and agricultural sectors.

¶14. (U) Forest resources in Liberia currently are held in trust by the Republic for the benefit of the people according to the Forestry Reform Law of 2006, which gives the government rights to determine best management practices over forest resources, even where the land is held by communities or private landholders. [Note: Plantation trees planted on private lands are not within the jurisdiction of the law. End note]. Many government records concerning land title were destroyed during the civil war, and in other cases, land titles were obtained without proper background investigation and correct geo-referencing. In January 2007, the FDA requested that all forest land deed holders submit their deeds to the FDA for review and validation. To date, deeds for over 8 million acres of forest deeds have been submitted ranging from several hundred acres to nearly 800,000 acres. Several of the largest deeds are subject to claims by several groups within one tribe, overlap with other deeds and when mapped can not be plotted as closed polygons.

¶15. (U) The members of the Forestry Reform Monitoring Committee (FRMC) were aware of land and property rights issues as the Forestry Reform Law of 2006 was being developed and recommended the creation of a land commission. Civil society organizations maintain that the 1959 Hinterland Law recognizes customary rights (rather than central government control) over forest resources adjacent to communities. The Governance Reform Commission (GRC) held meetings with stakeholder groups on land reform and established working groups under a Land Steering Committee in early 2007, but these efforts derailed when the legal status of the GRC expired in June. The GOL plans to introduce a bill to create a dedicated Land Reform Commission to the legislature in September 2007. Efforts to conclude a Community Forestry Law and to resume tenders for commercial logging sites in a manner acceptable to civil society are highly dependent on a swift resolution to land tenure issues, but progress has been slow.

COMMENT

¶16. (SBU) The resumption of commercial forestry is a top priority for the GOL, as the sector should generate significant employment opportunities and government revenues. Unfortunately, implementation is slower than expected because the FDA is behind schedule and the FDA has proven to be poor at communicating with civil society and other stakeholders. At this point, the best the FDA can hope for is advertisement of a few initial tracts in November with a possible award the first quarter of 2008. A breakdown in the contract negotiation with SGS would likely cause a major delay, potentially erasing any logging gains during the dry season. Even in the best of circumstances, commercial timber is

unlikely to have a significant economic impact this Liberian fiscal year and the GOL is likely to fall short of its original timber revenue forecasts. Land disputes are overwhelming an already weak judicial branch, with cases usually being brought to court as criminal cases, such as criminal mischief and trespass, although the real issue is that of property ownership. Conflicts over land ownership have already emerged in Nimba County, and continue to exacerbate ethnic tensions between the Gio and Mano tribes on the one side and the Mandingo on the other. The GOL's continued delays in establishing a body to focus on land issues is a serious hindrance to effective stabilization and reconstruction efforts in the country. END COMMENT.

BOOTH